

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Harbor Springs Area Fire Authority	County Emmet
Fiscal Year End 12/31/06	Opinion Date 05/23/07	Date Audit Report Submitted to State 06/25/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

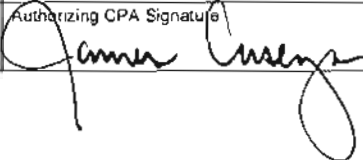
SE
YES

Check each applicable box below. (See instructions for further detail)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

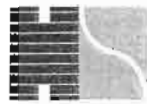
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NCN	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP		Telephone Number 231-347-4136	
Street Address 923 Spring Street		City Petoskey	State MI
Zip 49770			
Authorizing CPA Signature 		Printed Name James Cusenza	License Number 1101012888

FINANCIAL REPORT
HARBOR SPRINGS AREA FIRE AUTHORITY
December 31, 2006

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Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

May 23, 2007

Independent Auditors' Report

Board of Directors
Harbor Springs Area Fire Authority
Harbor Springs, Michigan

We have audited the accompanying financial statements of the Harbor Springs Area Fire Authority as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbor Springs Area Fire Authority as of December 31, 2006 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Harbor Springs Area Fire Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Net Assets
December 31, 2006

Assets

Current assets

Cash	\$ 438,757
Deposit on fire truck	10,000
Due from other governmental units	<u>110,000</u>
Total current assets	<u>558,757</u>

Noncurrent Assets

Capital assets	723,272
Less: accumulated depreciation	<u>(494,388)</u>
Total noncurrent assets	<u>228,884</u>
Total assets	<u><u>\$ 787,641</u></u>

Liabilities and Net Assets

Current Liabilities

Due to other governmental units	<u>\$ 131,050</u>
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Net assets

Invested in capital assets	238,884
Restricted for future capital purposes	124,011
Unrestricted	<u>293,696</u>
Total net assets	<u>656,591</u>
Total liabilities and net assets	<u><u>\$ 787,641</u></u>

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended December 31, 2006

Operating revenue	
Charges for services	<u>\$ 110,000</u>
Operating expenses	
Operation and maintenance	135,529
Depreciation	<u>68,513</u>
Total operating expenses	<u>204,042</u>
Operating income (loss)	<u>(94,042)</u>
Nonoperating revenues	
Interest revenues	16,812
Grants and contributions	212,000
Other income	<u>2,474</u>
Total nonoperating revenues	<u>231,286</u>
Net loss before capital grants and contributions	137,244
Capital grants and contributions	<u>50,000</u>
Change in net assets	187,244
Total net assets - beginning	<u>469,347</u>
Total net assets - ending	<u><u>\$ 656,591</u></u>

HARBOR SPRINGS AREA FIRE AUTHORITY
Statement of Cash Flows
Year Ended December 31, 2006

Cash flows from operating activities	
Cash receipts from customers	\$ 109,700
Cash payments to suppliers for goods and services	<u>(120,345)</u>
Net cash provided (used) by operating activities	<u>(10,645)</u>
Cash flows from non-capital financing activities	
Operating grants received	<u>212,000</u>
Cash flows from capital and related financing activities	
Contributed capital	50,000
Capital grants received	-
Purchase of capital assets	(32,321)
Sale of capital assets	<u>2,474</u>
Net cash provided (used) by capital and related financial activities	<u>20,153</u>
Cash flows from investing activities	
Interest from bank accounts	<u>16,812</u>
Net increase (decrease) in cash	238,320
Cash, beginning	<u>200,437</u>
Cash, ending	<u><u>\$ 438,757</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	<u>\$ (94,042)</u>
Adjustments to net cash provided by operating activities:	
Depreciation	68,513
Change in assets and liabilities:	
(Increase) decrease due from other governmental units	(300)
Increase (decrease) due to other governmental units	<u>15,184</u>
Total adjustments	<u>83,397</u>
Net cash provided (used) by operations	<u><u>\$ (10,645)</u></u>

HARBOR SPRINGS AREA FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2006

NOTE 1: THE REPORTING ENTITY

The Harbor Springs Area Fire Authority (the "Authority") was created as a corporate instrumentality in 1992 under provisions of Act 57, Michigan Public Acts of 1988. The local governments comprising the Authority include the City of Harbor Springs, Little Traverse, West Traverse and Pleasantview Townships. The Authority provides fire protection, equipment and services to these municipalities. The Authority is not included in any other governmental "reporting entity" as defined by GASB 14, since none of these governmental units appoint a majority of the Authority's board, the board members have decision making authority, the authority to set rates, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting – The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing fire protection services to member communities. All other revenues and expenses are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

Capital Assets – The building, equipment and vehicles are recorded at cost. The vehicles are being depreciated under the straight-line method over their estimated useful life of 15 years; the other fixed assets are being depreciated over their shorter estimated useful lives using the straight-line method.

The Authority has not formally adopted a capitalization policy. Assets with a useful life of over 1 year continue to be capitalized. Provisions for depreciation aggregating \$68,513 in 2006 have been recorded in the statement of Revenue, Expenses, and Changes in Net Assets.

Capital Grants and Contributions – Capital grants awarded the Authority and contributions from member units to defray capital acquisition costs are recorded as capital grants and contributions.

Repair and Maintenance – Repair and maintenance expenses are charges against operations when incurred.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Statement Estimates – The Authority uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTE 3: CASH

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At year-end, the carrying amount and the bank balance of the Authority's deposits was \$438,757, of which \$100,000 was covered by federal depository insurance. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

State statutes and the Fire Authority's investment policy authorize the Fire Authority to make deposits in the accounts of federally insured banks, credit unions, and saving and loan associations that have an office in Michigan; the Fire Authority is allowed to invest in U. S. Treasury or Agency obligations, U. S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Fire Authority's deposits are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: CAPITAL ASSETS

A summary of Capital Assets at December 31, 2006 follows:

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006
Assets not being depreciated:				
Construction in progress	\$ 5,692	\$ -	\$ -	\$ 5,692
Capital assets being depreciated:				
Buildings and improvements	29,946	-	-	29,946
Equipment	665,350	22,284	-	687,634
Subtotal	695,296	22,284	-	717,580
Less accumulated depreciation:				
Buildings and improvements	4,862	2,792	-	7,654
Equipment	421,013	65,721	-	486,734
Subtotal	425,875	68,513	-	494,388
Net capital assets being depreciated	269,421	(46,229)	-	223,192
Net capital assets	\$ 275,113	\$ (46,229)	\$ -	\$ 228,884

Construction in progress consists of:

	Project Estimates	Expended to Dec. 31, 2006	Committed at Dec. 31, 2006	Estimated Required Future Financing
Satellite Fire Station	\$ 350,000	\$ 5,692	\$ 10,000	\$ -

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Authority belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Authority pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the Authority could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

NOTE 6: COMMITMENTS AND SUBSEQUENT EVENTS

The Authority has committed to purchase a used 1991 Ladder Truck from the City of Frankfort, Kentucky for \$169,000, and for which a \$10,000 deposit has been paid. This truck has already been funded by a donation.

The Authority has also signed a purchase agreement to buy a new pumper/tanker at a cost of approximately \$365,000. The Authority has received commitments of Tribal Revenue Sharing of \$90,000 towards the purchase of this unit.

Finally, the Authority has authorized the construction of a Satellite Station to be located at the Little Traverse Township Hall property. The Authority is using a construction management-type process and the estimated cost of the project should not exceed \$275,000, which was less than the original estimate of \$400,000.